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No. 05-130

In the Supreme Court of the United States

EBAY INC. AND HALF.COM, INC.,

Petitioners,

v.

MERCEXCHANGE, L.L.C.,

Respondent.

ON A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF OF *AMICI* CURIAE QUALCOMM INCORPORATED AND TESSERA, INC. IN SUPPORT OF RESPONDENT

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BRIEF OF *AMICI* CURIAE QUALCOMM, INC., TESSERA, INC. AND BIOGEN IDEC INC. IN SUPPORT OF RESPONDENT

Interest of the *Amici*

This brief is filed with the consent of the parties[1] on behalf of QUALCOMM Incorporated, and Tessera, Inc.

[1] The parties' blanket letters of consent have been filed with the Clerk in compliance with Rule 37.3. This brief was not authored in whole or in part by counsel for any party. No person or entity other than the *amici* made a monetary contribution to the preparation or submission of this brief.

Qualcomm is a leading developer and innovator of Code Division Multiple Access (CDMA) and other advanced wireless technologies. Headquartered in San Diego, Calif., Qualcomm is included in the S&P 500 Index and is a 2005 FORTUNE 500® company. Qualcomm presently has more than 4,000 United States patents and patent applications. Qualcomm's technology and semiconductor products are widely used in the manufacture of cellular telephones and other wireless devices. Qualcomm has licensed its technology to more than 125 leading telecommunications and consumer electronics equipment manufacturers around the world.

Tessera is a leading provider of miniaturization technologies enabling the semiconductor industry to build smaller, faster, and more reliable electronic products. Tessera presently has over 360 issued United States patents and over 50 licensees in the area of computer chip packaging technology, including the world's top semiconductor companies such as Intel, Samsung, Renesas, Toshiba and Texas Instruments, as well as a number of universities. Over 4.5 billion computer chips incorporating Tessera's miniaturization technology have been integrated into a range of wireless, computing, gaming, entertainment, medical, and defense-related electronic products. Tessera's ability to continue to innovate depends upon its ability to license its technology and enforce its patents.[2]

The viability of high technology industries depends in significant part on the maintenance of strong patent laws. The *amici* believe the well-established presumption in favor

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[2] BiogenIdec, Inc. joined these *amici* in filing a brief in support of the Respondent at the certiorari stage. BiogenIdec is a member of the Biotechnology Industry Organization which is filing its own amicus brief.

of permanent injunctive relief to implement a final judgment of infringement is essential to the ability of patent holders to enforce their patents. eBay seeks to dramatically alter the established system and create a disfavored class of patent owners that would, if adopted, cast a cloud over the ability of holders of United States patents to maintain technological leadership. The position they advance would result in a substantial disincentive to innovation and investment in research and development. Since the economy of the United States today rests on our technological strength, the change in the law that eBay seeks is not in the public interest.

It would be easy to look at the identities of the companies and trade associations that have filed amicus briefs and conclude that they reflect a difference between the electronics industry on the one hand and the biotech industry on the other. We are filing this brief to correct any such misinterpretation. The dispute is not between industry segments, but between those companies who have adopted a strategy of either ignoring patents or declining licenses in the belief they will not be sued or can wear down patent plaintiffs and those companies who believe in our patent system and have designed their business plans to see their patents brought to market in the most productive and effective way through licensing and/or development.

Summary of Argument

The effort of eBay and its *amici* to alter established principles governing final injunctions in patent infringement cases relies on numerous unsupported assertions about the role that final injunctions play in patent licensing and litigation. Those assertions consist primarily of their counsel's statements that are not supported with citations to reliable factual material. Many of the assertions are simply

characterizations of articles and publications that lack support in empirical evidence or peer-reviewed conclusions.

The reality, at least from the perspective of the parties filing this brief, is quite different. Final injunctions are an established part of the relief in successful patent infringement suits because the essence of the patent is the right to exclude others from practicing the patented invention – a right that is fundamentally different from the private rights protected in other civil litigations. The need for and frequency of final injunctions is therefore necessarily different than in non-patent cases. That difference reflects sound principles of patent law that have been part of our American patent system for about two hundred years. The current patent injunction principles do not require any judicial adjustment.

To the extent that there is any need for patent reform, that need is properly addressed by the legislative, and not the judicial, branch. Congress has shown an active interest in developing laws to preserve and enhance America's role as the leading force in technological development and that interest counsels judicial restraint, not the embracing of the policy arguments that led the trial court to erroneously deny an injunction in this case.

Argument

I. Petitioners' Description of the Patent Marketplace Is Inaccurate and Unsupported by Any Evidence

The petitioners' brief begins with a false assertion that because of the Federal Circuit's decisions on injunctions, "most defendants are coerced into settling and must abandon

even meritorious appeals, as well as reexamination challenges in the Patent and Trademark Office." (eBay Merits Br. at 3) Like the other depictions of a broken patent marketplace that are spread throughout the eBay *amici* briefs, this assertion of "the way the world is" is not supported by empirical evidence. In fact, the reality that emerge from this Court's own files reveals the inaccuracy of eBay's characterization.

This case itself shows that willful infringers are not cowed by the prospect of an injunction after an unsuccessful litigation defense and are not "coerced" into any settlement. To the contrary, large corporate infringement defendants often pursue a "scorched earth" defense strategy, particularly when they are sued by smaller entities.

Perhaps the best evidence refuting eBay's characterization of the impact of injunctions is found in the recently concluded saga of the BlackBerry®. The *Research in Motion v. NTP* litigation was before this Court in the context of an application for a stay (No. 05A357, application to recall and stay mandate denied, Oct. 26, 2005) and a petition for a writ of certiorari (No. 05-763, petn. denied Jan. 23, 2006). In that case, the manufacturer of the ubiquitous BlackBerry® wireless email system was found to have willfully infringed several of NTP's patents. The trial court's injunction that would have shut down the system was stayed pending appeal. The defendant did not settle the case in the face of that injunction and the jury finding of willful infringement, but continued to litigate vigorously and sought

to take advantage of re-examinations of the patents at the PTO.[3]

After two decisions from the Federal Circuit upholding the jury verdict on several of the patent claims, affirming the key elements of the trial court's claim construction and finding the patents valid, RIM sought review here. Following the January denial of that petition, the case returned to the District Court for a decision on lifting that court's stay of its injunction. Despite widespread concern among BlackBerry® users that an injunction would issue and shut the system down, RIM did not settle the case, but continued to litigate. When the matter came before the District Judge on February 24, 2006, he remarked at the end of an almost four hour hearing that he was "absolutely surprised that you have left this incredibly important and significant decision to the court. . . . I have always thought that this decision, in the end, was a business decision." (remarks of Judge Spencer as quoted in Joshua Brockman, *Judge Lets BlackBerry Stay in Play for Now*, N.Y. TIMES, Feb. 25, 2006 *available at* http://www.nytimes.com/2006/02/25/business/25rimm.html) (copy on file with author).

RIM finally settled the case for a payment of $612,500,000 in exchange for a fully paid-up license to all of

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[3] *See, e.g.*, Associated Press, *Judgment day nears for BlackBerry maker* (Feb. 20, 2006) *available at* http://edition.cnn.com/2006/TECH/biztech/02/20/BlackBerry.battle.ap/ (copy on file with author); RIM Press Release, *RIM Provides Update on Patent Reexamination Proceeding* (February 1, 2006) *available at* http://www.rim.net/news/press/2006/pr-01_02_2006-02.shtml (copy on file with author).

NTP's patents and a termination of all litigation.[4] That settlement was not – as eBay's arguments would suggest – a grossly inflated sum driven by the coercive effect of an impending injunction. The sizeable settlement was in fact substantially less than the jury verdict and the estimated dollar value of the future royalties on the BlackBerry® products that RIM could have expected to pay using the reasonable royalty rate found by the jury and affirmed by the courts. According to Wall Street brokerage firms, the present value of the future royalty stream ranged from $840,000,000 to over $3,000,000,000.[5] When the jury verdict for past damages is included, the present value of NTP's judgment exceeded $1,000,000,000 under the most conservative of the available estimates.

The facts of the BlackBerry® litigation and settlement illustrate the exaggerations that eBay and its *amici* have put forth in their effort to show that the long-standing rules regarding final injunctions in patent cases cause potential defendants to accept an inflated settlement out of fear their

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[4] Associated Press, *Settlement Reached in BlackBerry Patent Case* (March 3, 2006) *available at* http://www.msnbc.msn.com/id/11659304 (copy on file with author).

[5] An October 25, 2005 Citigroup Research report concluded the present value of future royalties that RIM could owe on the NTP patents was in the range of $3,000,000,000 to $4,000,000,000. The report is available to the public from the SmithBarney website (http://www.smithbarney.com) where anyone can register for free guest access and enter the "Research" area to get the analysis using the ticker symbol RIMM. A January 19, 2006 report from Merrill Lynch placed the present value of the future royalties at $840,000,000. (copies of both reports on file with author).

products will be removed from the marketplace. The argument has not been supported by actual examples. We submit that the absence of any actual examples exposes a fatal flaw in the eBay argument.

The briefs filed by eBay and its *amici* are filled with assertions that an enormous problem exists, particularly in the high technology industry, because of defects in the patent system and a recent proliferation of non-practicing entities ("NPEs") that exist solely to litigate and make money on the basis of invalid patents. The secondary sources that are cited in those briefs to support this argument have never been produced in court or subjected to cross-examination. Indeed eBay's *amici* have gone so far as to rely on an unpublished trade association survey to support their claim of market collapse.[6] The Court should not base its decision on such unreliable assertions of the effect of current rules.

The judicial and legislative war that eBay and others in the electronics industry are waging against the availability of injunctions to NPEs rests on a base of undocumented statements about the present state of patent litigation. Those proponents charge that these small patent owners are unfairly beating up on them by having the weapon of an injunction. It is ironic that the loudest proponents of a change are large multi-million-dollar entities that have been successfully sued by small companies whose patents have withstood the test of litigation through the trial and appellate courts.

The arguments presented by the Petitioners and its supporters are the legal equivalent of Goliath asking an ancient disarmament commission to take away David's slingshot because it was an excessively powerful weapon.

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[6] Br. of *Amici* Business Software Alliance *et al.* at 17, summarizing a "forthcoming" survey by the American Electronics Association.

eBay and its allies have proven themselves more than able to defend themselves in court. They do not need a change in the rules to gain leverage in their efforts to compete.

The companies who are filing this brief have been involved in several patent litigations, both as plaintiffs and as defendants. It has not been their experience that the possibility of an injunction is the determinative – or even the most significant – factor in a potential defendant's decision to take a license or settle a lawsuit. The possibility of an injunction at the end of an unsuccessful defense is, of course, a factor, but it is only one of the many litigation risks that influence the licensing and settlement equations. The far more significant factors in most cases are the strength of the asserted patent, the scope of the patent as it affects the accused infringer's business, the risk of substantial damages, the inherent uncertainty of claim construction decisions (both at trial and on appeal), the size of potential jury verdicts, and the very high cost of patent litigation. In view of the numerous factors, the current injunction standards do not have the determinative effect on the frequency or the size of patent litigation settlements or licenses that is claimed by eBay and its *amici*.

In the current marketplace, the character of the owner of the patent has little effect on how the market values that patent. eBay's proposed changes would significantly alter that situation by making the patent holder's utilization of the patent a factor in issuing a final injunction. If eBay's proposal for some type of carveout in the injunction rules for certain patent holders – i.e., NPEs – were adopted, then the value of patents would depend on who owns the patent rather than the intrinsic value of the claimed invention. An NPE would – in eBay's world – have a significantly different chance of obtaining an injunction after a successful litigation than would an owner who was practicing the invention. That world would be a distortion of the marketplace. The value of

property should not depend on legal rules that are different for different owners.

The parties to this brief believe that the patent marketplace – both in its licensing and litigation spheres – is functioning efficiently. There is no great imbalance caused by the Federal Circuit's decisions on when injunctions should issue. This Court is ill-served by shrill claims that the sky is falling and that this Court needs to superintend the Federal Circuit to put the marketplace back together again.

On the basis of their own experiences, these *amici* believe the present patent licensing and technology transfer market is built on a widely shared understanding of how the current patent injunction rules actually work. The terms and conditions of commercial arrangements reflect accurately how these rules integrate into all the other factors that determine the details of any licensing agreement. Business solutions on pricing and other terms are reached through true arms length negotiations that are not unduly affected by possible injunctions.

We believe that the differences in perspective that are evident from the many briefs before the court in fact reflect a fundamental difference in the business plans that have been adopted by technology concerns. Firms like eBay, RIM and other eBay supporters are fundamentally anti-patent. They view patents as roadblocks to technology, not as essential incentives that make technological advances possible. Their approach often is to disregard patents.[7] It is only when they

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[7] The suggestions by eBay and its supporters that it is impossible in today's environment to know about patents that might be infringed are contradicted by the experiences of more established corporations that "proper diligence generally will uncover the intellectual property of others." Br. of *Amici* General Electric *et al.* at 19-20.

face patents held by large competitors that they take a license prior to the end of extraordinarily expensive and protracted litigation.

The anti-patent, anti-injunction posture that undergirds eBay's position is fundamentally at odds with the strongly pro-patent policy that this country has adopted since its creation over two hundred years ago.[8] The Court should follow the path marked by the Founders and Congress and not take the road in the opposite direction that eBay and its *amici* point toward.

II. eBay In Effect Asks The Court to Overrule *Continental Paper Bag* and Hold That Issuance of a Final Injunction Depends in Part on Whether the Patentee is Practicing the Invention

When eBay petitioned for a writ it suggested that the decision of the Federal Circuit was inconsistent with *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908). (Petn. at 24-25) The Court apparently recognized that eBay was misreading that case and that *Paper Bag* in fact undercut eBay's position. Now that the Court has directed the parties to squarely address that issue, eBay has adopted a very different posture. On the one hand its primary position now is that *Paper Bag* is not inconsistent with the rule it urges the Court to adopt. (eBay Merits Br. at 16) On the other hand eBay argues that to the extent the decision supports the Federal Circuit's decision, *Paper Bag* should be overruled. (*Id.*) eBay no longer embraces the case as one supporting its position, but instead tries to dismiss it as irrelevant. The Court should not be misled by this

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[8] That history is fully documented in the amicus brief filed by Intellectual Ventures, Nathan Myhrvold and others.

turnaround. Despite efforts to distinguish that long-standing precedent, eBay is in fact asking this Court to severely limit – if not squarely overrule – *Paper Bag*.

The trial court's denial of an injunction rested significantly on its conclusion that "[s]ubstantial evidence was adduced at trial showing that [MercExchange] does not practice its inventions and exists merely to license its patented technology to others." *MercExchange, LLC v. eBay, Inc.*, 275 F. Supp. 2d 695, 712 (E.D. Va. 2003). eBay and its *amici* continue to rely on that statement, referring to the NPE factor multiple times in their briefs. (eBay Merits Br. at 24-25; Br. of *Amici* Business Software Alliance, *et al.* at 12-18; Br. of *Amici* Time Warner, *et al.* at 17-19) The trial court's reliance on that factor, which MercExchange argues convincingly is factually wrong, reflects a failure to understand and apply the principle establish by the *Paper Bag* decision almost a century ago. The Court of Appeals properly reversed the trial judge because that rationale for denying an injunction cannot be reconciled with this Court's 1908 decision.

We agree with MercExchange and other *amici* supporting the Respondent that consideration of whether the patentee practices its invention is and should remain irrelevant to the judicial decision on whether to issue a final injunction. The central holding of the *Paper Bag* decision was a rejection of the NPE argument advanced here by eBay and its *amici*. That case involved a bill in equity to enjoin the Continental Paper Bag Co., a competitor of the Eastern Paper Bag Co., from infringing a patent covering a particular machine for making paper bags. The defendant argued that a court of equity had no jurisdiction to issue an injunction because the plaintiff's patent was "a mere paper proposition which it has never put into effect or use." *Id.* at 406. Continental made the same policy argument that eBay and its *amici* advance here: "[I]t is contrary to equity to suppress a

useful and established business" in a case where the patent owner "simply owns [a] patent that has never been employed by that complainant in any way. . . ." *Id.* at 406-07. The Circuit Court had expressly recognized that "the complainant, so to speak, locked up its patent. It ha[d] never attempted to make any practical use of it, either itself or through licenses, and, apparently, its proposed policy has been to avoid this." *Id.* at 427-28. That court had "no doubt that the complainant stands in the common class of manufacturers who accumulate patents merely for the purpose of protecting their general industries and shutting out competitors." *Id.* at 428.

The *Paper Bag* Court answered the policy argument unequivocally:

> As to the suggestion that competitors were excluded from the use of the new patent, we answer that such exclusion may be said to have been of the very essence of the right conferred by the patent, as it is the privilege of any owner of property to use or not use it, without question of motive.
>
> The right which a patentee receives does not need much further explanation. We have seen that it has been the judgment of Congress from the beginning that the sciences and the useful arts could be best advanced by giving an exclusive right to an inventor.
>
> *Id.* at 429 (internal citation omitted).

The Court went on to conclude that Eastern was entitled to an injunction, notwithstanding the fact that it never made any use of the patented invention.

A. The Central Holding in Continental Paper Bag Was Sound and Is As Valid Today As It Was Then

The Court should re-affirm the *Paper Bag* conclusion. The briefs filed by MercExchange, Intellectual Ventures, Rembrandt and Various Law & Economics Professors show that the holding in that case reflected well-established common law principles that had been widely-followed in decades of prior patent litigation. Those briefs also show that the holding has been followed in the almost one hundred years since that decision. There is nothing in the history of United States patent law that requires a patentee to practice the invention in order to obtain enforcement of all of its rights to exclude others from practicing that invention. The patent laws of some other countries do require a patentee to practice the invention,[9] but the United States has never adopted that rule as a general policy. eBay's position amounts to a diluted version of a "working requirement" because it would have the decision on issuing a final injunction turn in part on whether the owner was licensing the patent solely to earn royalties or as part of

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[9] Many countries have a codified working requirement. For example, in Japan, France, Brazil, Mexico and South Africa, one may apply for a compulsory license if a patent is not worked or used within three years of its grant. *See* ARNOLD SIEDSMA, MANUAL FOR THE HANDLING OF APPLICATIONS FOR PATENTS, DESIGNS AND TRADEMARKS THROUGHOUT THE WORLD (Kluwer Law International 2006).

its own deployment of the patented invention.[10] The Court should not now adopt a policy that Congress has decided not to adopt.[11] It is within the purview of Congress, not the Court, to legislate.

Patent owners, like owners of other real and personal property, have the absolute right to decide how to use their property, subject to valid restrictions to protect the public. A land owner can let her land lie fallow; the owner of a work of art can choose to display it in his home rather than a museum. The owner of a patent can choose to practice it, to license it or – as Eastern Paper Bag did – to let it lie unused. "The federal patent system . . . embodies a carefully crafted bargain for encouraging the creation and disclosure of new, useful, and nonobvious advances in technology and design in return for the exclusive right to practice the invention for a period of years." *Bonito Boats v. Thunder Craft Boats*, 489

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[10] eBay's argument is facially inconsistent. Any NPE that might be trying to use its patents to extract royalties cannot benefit by getting an injunction because the injunction would preclude payment of the royalties. Thus an NPE has the same incentive that a patentee who practices its invention has – to see the invention deployed as widely as possible.

[11] Despite numerous past attempts, compulsory licensing schemes have consistently failed before Congress. *Hartford-Empire Co. v. United States*, 323 U.S. 386, 417 (1945) (citing seven prior attempts in 1877, 1911, 1912, 1942 (x2) and 1943). More recent attempts have failed as well. *See e.g.*, H.R. 4815, 107th Cong. (2002) (proposing compulsory licensing for certain patented inventions related to genetically engineered crops and animals); H.R. 3235, 107th Cong. (2001) (proposing compulsory licensing for certain patented inventions relating to health); H.R. 1708, 107th Cong. (2001) (same); H.R. 2927, 106th Cong. (1999) (same).

U.S. 141, 150 (1989). Absent a compensated taking of the patent, that public disclosure is the only thing the patentee has to give up in order to obtain full benefit of the right to exclude.

There is no sound reason to change the established rights of patent owners. In some instances, a patent holder may decide that the most efficient way to obtain the full value of its patent is to sell products or services incorporating the patented invention. In other instances, the patent holder may decide that it is more beneficial to license one or more entities to practice the invention or sell the patent to someone else. Or a patent holder may even decide to let the patent lie fallow. This decision is the patent holder's alone – courts should not dictate the result by establishing overly-restrictive rules for issuance of injunctions.

Qualcomm's own experience in bringing innovative technology to market is informative. Qualcomm developed a technologically-advanced method of wireless communications – CDMA (Code-Division Multiple Access) – that allows for far more efficient use of the available wireless frequencies than other technologies. Qualcomm developed this technology and obtained several patents on it. Qualcomm initially tried to market the technology by manufacturing its own branded cellular phones. It soon discovered that success in the cellular phone business required substantial resources and access to many technologies other than CDMA. As a result, it changed its approach and undertook to license its patents to other entities. In significant ways, Qualcomm's story is similar to MercExchange's efforts to commercialize its patents before

turning to licensing as a more viable alternative.[12] The major difference is that Qualcomm was large enough to obtain licenses without having to first endure protracted litigation and without having to counter companies that decide to simply take the technology withqut paying for it.

Likewise, Tessera's experience in developing and gaining industry adoption of its technology is informative. Tessera developed fundamental semiconductor packaging technology that allows packaged chips to be significantly smaller and thinner in format and yet be mechanically reliable and have a higher level of electrical performance than previous technology. It took more than 10 years and over one billion dollars of investment by Tessera, its licensees and others for Tessera to gain sufficient adoption of its technology by the industry, resulting in Tessera's ability to be successively profitable on a quarter-to-quarter basis. Tessera did not start out as a licensing company or a NPE. Initially, Tessera's business model was a manufacturing model – it intended to make low cost, high speed electronic modules using other companies' semiconductor chips. However, because Tessera's chip vendors for these modules preferred to offer these modules themselves, they wanted multiple sources of the Tessera technology. Multiple sources were important for them because it allows for price competition and a lower risk of non-delivery.

After much deliberation, Tessera changed its business model to a licensing model so the technology could gain broader adoption and so these and other companies could more readily gain access to it at a reasonable price point.

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[12] The history of Qualcomm's growth is detailed in Dave Mock, "The Qualcomm Equation: How a Fledgling Telecom Company Forged a New Path to Big Profits and Market" (AMACON 2005).

Today, virtually every cellular phone in the world contains multiple chips packaged with Tessera's technology. Further, the most recent generation of DRAM is likewise using Tessera technology because of its high electrical performance characteristics. Tessera has had to endure patent litigation with some of the largest and most litigious companies in the industry to get them to pay for the Tessera technology they are using – companies such as Texas Instruments, Samsung and Sharp Corporation. All of these companies currently pay running royalties to Tessera for the technology at issue in each of their litigations. Today, Tessera's licensee list looks like a virtual who's who of the semiconductor industry, including the five largest companies in the world and approximately 50 other significant world-wide semiconductor companies.

The experiences of Tessera and Qualcomm aptly illustrate the impossibility of implementing the change in the law urged by eBay. There is no clear distinction between those experiences and the experiences of MercExchange as detailed in the Respondent's Merits Brief. There is no basis in eBay's argument for deciding which of the three companies is an NPE and which is not. Reduced to its essence, eBay's argument is that there are "bad actors" – at least in eBay's eyes – out there who deserve to have a higher hurdle placed in their path of patent enforcement. That contention is extraordinary considering that it comes from a proven "bad actor" that willfully infringed MercExchange' patents after unsuccessfully negotiating for a license. eBay has not offered any test that would differentiate between its unsuccessful negotiations with MercExchange and similar impasses in negotiations that have been undertaken by Qualcomm, Tessera or any of many other technology companies. eBay's proposal thus amounts to an extraordinarily self-centered rule that lacks any concept of judicious application of neutral legal principles

B. The Limitation on Injunctions Urged by eBay is Illusory and Impracticable.

The so-called NPE exception advanced here cannot be applied in practice using any judicially manageable standards. The largest group of non-practicing entities is the university community. Petitioners' *amici* rush to assure the Court that their proposal would not apply to universities. (Br. of *Amici* Business Software Alliance *et al.* at 29; Br. of *Amici* Research in Motion at 13) But they provide no neutral principle for excluding universities from the new rule they propose.[13] There is simply no way to subdivide NPEs into "good NPEs" and "bad NPEs." There is no judicially-manageable bright line between supposed "patent trolls" and inventors who cannot practice their inventions because of resource limitations or managerial considerations. The result of adopting eBay's proposal would be the creation of judicially-sanctioned discrimination; the legal protection accorded a U.S. patent would depend on who owned that patent and not on the intrinsic value of the property itself. Discrimination because of the character of the owner is antithetical not only to our patent system, but to

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[13] The impact of the eBay proposal on universities is detailed in the *amicus* briefs of the Association of American Universities *et al.* and the Wisconsin Alumni Research Foundation.

constitutionally-grounded values that this Court protects.[14]

A successful patent plaintiff's prior licensing or manufacturing activities may in some cases be relevant to the judicial decision to issue a final injunction, but that prior activity cannot be a controlling factor. The Court should not skew the analysis by adopting eBay's position that a patent owner who does not practice its invention is automatically less entitled to an injunction.

III. The Conflicting Policy Arguments Regarding the Balance of Rights in the Patent Marketplace Are Properly Addressed by the Legislative – Not the Judicial – Branch

eBay's original petition and its merits brief include public policy arguments for changing settled law regarding final injunctions that protect the patentee's right to exclude. We noted in our amicus brief opposing the grant that the same argument was then being advanced in Congress in support of pending legislative proposals to amend 35 U.S.C. § 283 to tilt the law in eBay's favor. See, e.g., Oversight Hearing on the Committee Print Regarding Patent Quality Improvement (Part I), House Jud. Comm. (Apr. 20, 2005); Legislative Hearing on H.R. 2795 ("the Patent Act of 2005"), House Jud. Comm. (June 9, 2005); Legislative

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[14] The impossibility of separating "good" and "bad" patentees is illustrated by the conflicting views of the parties as to the true nature of MercExchange. eBay in effect says that MercExchange, like other entities it labels NPEs, exists only to extort money through litigation. (eBay Merits Br. at 24-25) MercExchange responds by suggesting it is the victim of a corporate giant that decided to steal its ideas rather than to enter into a business relationship.

Hearing on "The Amendment in the Nature of a Substitute to H.R. 2795, the 'Patent Act of 2005,'" House Jud. Comm. (Sept. 14, 2005). eBay's Reply Brief suggested we were misrepresenting the facts and that there was no legislative activity still underway. (Reply Brief of Petns. at 10) In fact, legislative efforts were still ongoing at that time and today.

The legislative initiative that The Business Software Alliance[15] and other entities undertook in an effort to reduce the likelihood that a NPE can obtain an injunction continues. As recently as January 25, 2006, IBM's senior site executive in Texas was quoted as saying that "Rep. [Lamar] Smith is leading the charge to making the biggest changes in the patent industry in the last 50 years." L.A. Lorek, "*Lawmaker blasts 'patent trolls'*" SAN ANTONIO EXPRESS-NEWS, January 28, 2006 at D1. Congressman Smith, the Chairman of the House Judiciary subcommittee on Courts, the Internet and Intellectual Property that is considering H.R. 2795, validated the fact that the legislative efforts are ongoing when he stated that Congress is "looking to protect everyone, from the lone inventors in their garages to IBM." *Id.*

The ongoing legislative process has already precipitated extensive debate and testimony before congressional committees. As is true with other controversial policy issues, the legislative process affords all interested parties an opportunity to state their views, document their claims and engage in full and active dialogue with the decision-makers. The legislative process allows for

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[15] That trade association has filed an amicus brief in support of eBay in this case. The Information Technology Industry Council has joined in that brief. As noted in that brief, Qualcomm and eBay are both members of ITI. (Br. of *Amici* Business Software Alliance *et al.* at 2) Qualcomm does not support the position taken by ITI in this case.

presentation of facts and examination of the validity of fact-based arguments. The appellate judicial process necessarily affords a far less fulsome, accurate and democratic mechanism for considering the effect of policy changes.

Judicial restraint in this case counsels against the Court's exercise of its discretion when the issue is actively under consideration by the Legislative Branch. As Justice Powell stated for himself, Chief Justice Burger and Justice Blackmun, "confidence in the restraint of the Court is impaired, when we appear unnecessarily to decide sensitive issues of broad social and political importance at the very time they are under consideration within the prescribed constitutional processes." *Frontiero v. Richardson*, 411 U.S. 677, 692 (1973) (concurring opinion). That observation regarding the pendency of the Equal Rights Amendment applies as well to this case given the pendency of legislation to amend to amend the patent laws.

The established principles of *stare decisis* counsel against changing the rules regarding injunctions in patent cases that have been built upon the *Paper Bag* decision. The Court has recognized that those principles apply with greater force when the issue is not one of constitutional dimension. There have been numerous occasions when the Court has reconsidered prior non-constitutional cases and decided that if there is to be a change, it should come from Congress and not this Court.

For example, professional baseball has long been exempt from application of the Sherman Antitrust Act, even though other professional sports are subject to that act. In 1972 the Court revisited the issue in *Flood v. Kuhn*, 407 U.S. 258 (1972). The Court concluded that it was up to Congress to change the law. *Id.* at 282.

In a similar vein, the Court in 1992 reconsidered the judicially-created principle that federal diversity jurisdiction does not extend to domestic relations cases. In *Ankenbrandt*

v. Richard, 504 U.S. 689 (1992), the Court concluded that the "domestic relations exception exists as a matter of statutory construction not on the accuracy of the historical justifications on which it was seemingly based, but rather on Congress' apparent acceptance of this construction." *Id.* at 700.

In each of these cases the Court recognized that the primary law-making branch of our federal government is Congress, not the courts. In each case the Court concluded that if there was to be a change in the law, the change should come from Congress, not the Court. Those cases are based on considerations of the separation of powers that should guide the Court's consideration of this case. The standards for issuing final injunctions in patent cases that were applied by the Federal Circuit are consistent with decades – if not centuries – of American judicial precedent. eBay seeks to change those established standards and instead substitute a principle that this Court itself rejected almost 100 years ago. The arguments for that change are flawed and unpersuasive. In any event such a radical change should not come from the judicial branch.

Conclusion

For the reasons stated, the Court should affirm the judgment of the Court of Appeals for the Federal Circuit.

Respectfully submitted,

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